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COMMONWEALTH OF MASSACHUSETTS

OFFICE OF CONSUMER AFFAIRS

AND BUSINESS REGULATION

DIVISION OF INSURANCE

SUFFOLK, ss.

Docket F99-02

IN THE MATTER OF THE ACQUISITION OF CONTROL
OF
USF RE INSURANCE COMPANY


BY

FOLKSAMERICA HOLDING COMPANY, INC.,
FOLKSAMERICA REINSURANCE COMPANY,
FUND AMERICAN ENTERPRISES HOLDINGS, INC. and
WHITE MOUNTAINS HOLDINGS, INC.

MEMORANDUM OF DECISION AND ORDER

INTRODUCTION

On April 16, 1999, Folksamerica Holding Company, Inc., a New York corporation



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("Folksamerica Holding"); Folksamerica Reinsurance Company, a New York corporation and wholly owned subsidiary of Folksamerica Holding; and Fund American Enterprises Holdings, Inc., a Delaware corporation ("Fund America") and the holder of 100% of the capital stock of Folksamerica Holding, submitted a proposal to the Massachusetts Division of Insurance ("the Division") on Form A pursuant to G.L. c. 175, §206B and 211 CMR 7.00 seeking approval of its plan to acquire control of USF RE Insurance Company ("USF RE"), a Massachusetts domiciled stock insurance company.

By Amendment to the Form A filed with the Division on May 5, 1999 (the Form A filed on April 16, 1999 and the Amendment filed on May 5, 1999 are herein referred to collectively as "Form A"), White Mountains Holding, Inc., a Delaware corporation, was added as a co-applicant to the Form A. Folksamerica Holding, Folksamerica Reinsurance, Fund American and White Mountains Holding, Inc. are herein referred to collectively as "Applicant".

The Form A requests approval under §206B of the acquisition of control by Applicant of USF RE ("the Proposed Transaction") pursuant to the terms of a Securities Purchase Agreement (the "Purchase Agreement") dated as of March 31, 1999 by and between Folksamerica Holding Company, Inc. and The Centris Group, Inc., a Delaware corporation ("Centris") and the sole owner of all the issued and outstanding shares of USF RE. Pursuant to the terms of the Purchase Agreement, Applicant will pay Centris an aggregate purchase price of \$92.5 million (subject to

adjustments in certain circumstances) to acquire one hundred percent (100%) of the issued and outstanding Common Stock of USF RE, par value \$60.00 per share.

The consideration to be used by Applicant in effecting the acquisition of control of USF RE will consist of cash in an aggregate amount of \$71.75 million and a five year unsecured interest-bearing note of Folksamerica Holding Company, Inc. in the amount of \$20.75 million. The purchase of USF RE does not include USF RE'S wholly owned subsidiaries, US Holdings, Inc. and USF Insurance Company.

HEARING

A public hearing was held in this matter commencing at 10:00 a.m. on June 3, 1999 at the Division's offices at 470 Atlantic Avenue, Boston, Massachusetts, pursuant to a Notice of Hearing that was published in The Boston Globe, Orange County Register and The Wall Street Journal.

The 20 days' notice requirement set forth in G.L. c. 175, §206B(d)(2) was waived by Applicant.

The following persons were present at the Hearing:

Steven E. Fass, President, Folksamerica Reinsurance Company;

Michael A. Tyburski, Chief Financial Officer, Folksamerica Reinsurance Company;

Donald A. Emeigh, Jr. Esq., Senior Vice President, Secretary and General Counsel,
Folksamerica Reinsurance Company;

Jose A. Velasco, Senior Vice President, The Centris Group, Inc.;

Acheson E. Callaghan, Esq., Anderson & Kreiger, LLP., counsel to Applicant;

Robert DiBiasio; Senior Financial Analyst, the Division;

Donald Johnson, Supervising Examiner, the Division.

Douglas Perry, Esq., Assistant General Counsel, the Division;

Mr. Fass testified describing the Proposed Transaction in some detail.

He stated that the \$92.5 million purchase price which Applicant will pay for USF RE was determined by arms' length negotiations. He also noted that Applicant was not acquiring a subsidiary of USF RE, namely, USF Insurance Company.

Mr. Fass also stated that USF RE will, following the closing of the Proposed Transaction, request the Division's approval for a change of name. No proposed name was given.

Mr. Fass offered a copy of a written statement of his testimony which he asked to be introduced into the record. It was made a part of the record and marked as Exhibit 1.

THE UNIVERSITY OF CHICAGO

DEPARTMENT OF CHEMISTRY

PHYSICAL CHEMISTRY

PROFESSOR J. H. KINNEY

ASSISTANT PROFESSOR

DR. J. H. KINNEY

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Mr. DiBiasio asked how much cash would be left in USF RE if the Proposed Transaction takes place. Mr. Fass advised that it would be approximately \$10 million.

The Presiding Officer inquired as to whether USF RE had any clients in the Commonwealth of Massachusetts. Mr. Emleigh advised that that information could be found in the Schedule F filed as part of the Form A filing.

The Presiding Officer also asked for confirmation that the Applicant was **not** seeking approval for the sale of the shell of USF RE and Mr. Fass said that such a sale would be a subsequent transaction requiring Division approval. Mr. Cody also asked concerning USF RE employees and offices in the Commonwealth of Massachusetts and was told by Mr. Fass that there were none. He then asked if the five year \$20.75 million unsecured promissory note to be issued by Folksamerica Holding Company, Inc. would be guaranteed by Fund American Holding, Inc. and was informed that it would not.

The Presiding Officer also confirmed that the Commissioner of Insurance has already approved the payment of an extraordinary dividend in kind by USF RE of the stock of its subsidiary, U.S. Holdings, Inc. The payment of that extraordinary dividend is conditioned upon the approval of the Proposed Transaction.

The Presiding Officer asked all persons present if any desired to testify either in support of or in opposition to the Form A, offering each such person the opportunity to present evidence, examine and cross-examine witnesses, and offer written and oral argument. No other offer of testimony was made.

The record in this Hearing was left open through the close of business on June 3, 1999. Other than as mentioned here, no other information or materials were entered into the record.

II. Findings of Fact and Conclusion of Law

After consideration of the Form A and all other documents filed with the Division in this matter, and all evidence and arguments presented at the Hearing, I find as follows:

1. USF RE Insurance Company is a Massachusetts stock insurance company, and is a "domestic insurer" within the meaning of G.L. c. 175, §206B(a).

2. Applicant proposes to acquire "control" of USF RE Insurance Company, as that term is defined in G.L. c. 175, §206, by acquiring all of the capital stock of USF RE Insurance Company.

3. After the proposed acquisition of control has occurred, USF RE Insurance Company will be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is currently licensed by the Division.

4. The effect of the proposed acquisition of control will not substantially lessen competition in insurance in the Commonwealth of Massachusetts or tend to create a monopoly therein.

5. The financial condition of Applicant is not such as might jeopardize the financial stability of USF RE Insurance Company. USF RE Insurance Company has no policyholders who are individual consumers since it is engaged exclusively in the business of reinsurance.

6. The terms of the Proposed Transaction are not unfair or unreasonable.

7. Applicant has no plans or proposals to liquidate USF RE Insurance Company, to sell its assets, to consolidate or merge USF RE Insurance Company with any person, or to make any other material change in the business, corporate structure or management of USF RE Insurance Company that is unfair or unreasonable or is not in the public interest except as disclosed in the Form A.

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8. The competence, experience and integrity of the persons who will control the operation of USF Re Insurance Company are such that it would be in the interest of the public to permit the proposed acquisition of control.

9. The proposed acquisition of control is not likely to be hazardous or prejudicial to the insurance-buying public.

III. Order

Based upon the above, I find that Applicant's Form A filing satisfies the requirements of G.L. 175,

§206B.

Accordingly, the application to acquire control of USF RE Insurance Company is hereby
APPROVED.

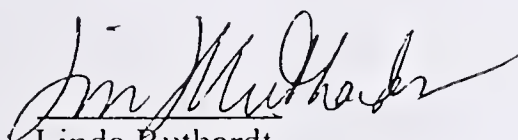


Richard A. Cody
Presiding Officer

Dated: June 21, 1999

AFFIRMED

I hereby affirm the above Order.



Linda Ruthardt
Commissioner of Insurance

Dated: June 24, 1999

**Any person aggrieved by this decision may appeal therefrom to the Superior Court
Department of the Trial Court for Suffolk County pursuant to G.L. c. 175, §206D(f)(3).**

